

Firstsource Solutions Limited

Q3 FY2010 Earnings Update





Disclaimer

Certain statements in this presentation concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in BPO services including those factors which may affect our cost advantage, wage increases, our ability to attract and retain highly skilled professional, time and cost overruns on client contracts, client concentration, our ability to manage ramp-ups and growth, our ability to manage our international operations, reduced demand in our key focus verticals, disruptions in telecom infrastructure and technology, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, performance of our subsidiaries, withdrawal of government fiscal incentives, political instability, legal restrictions on raising capital and acquiring companies outside India, unauthorized use of our intellectual property and general economic conditions affecting our industry. Firstsource may, from time to time, make additional written and oral forward-looking statements, including our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company.

Agenda

- Q3 FY2010 - Financial Performance
- Business Outlook

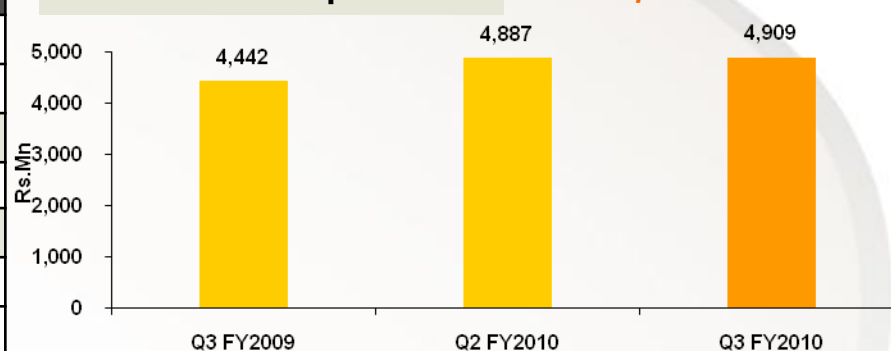




Financial Performance – Q3 FY2010

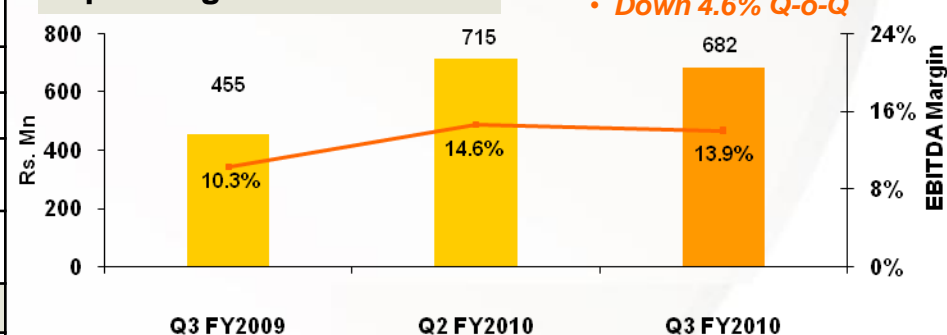
(IN INR Million)	Q3 FY 2009	Q2 FY 2010	Q3 FY 2010
Income from services	4,473	4,884	4,840
Other operating Income	(31)	3	69
Revenue from operations	4,442	4,887	4,909
Personnel & Operating Expense	3,987	4,173	4,227
Operating EBITDA	455	715	682
<i>Operating EBITDA %</i>	<i>10.3%</i>	<i>14.6%</i>	<i>13.9%</i>
Depreciation / amortization	255	226	215
Operating EBIT	201	488	467
<i>Operating EBIT %</i>	<i>4.5%</i>	<i>10.0%</i>	<i>9.5%</i>
Other Income / (expense)	(11)	(12)	22
Interest Income / (expense), net	(9)	(55)	(57)
Gain/(loss) due to exchange var. and amortized (cost) on fair value of FCCB	(30)	(28)	(28)
Exchange gain/ (loss) on Foreign currency loan	-	(43)	(7)
PBT	151	350	397
<i>PBT (% of total income)</i>	<i>3.4%</i>	<i>7.2%</i>	<i>8.1%</i>
Taxes	33	58	64
Minority Interest	2	1	-
PAT	116	291	333
<i>PAT (% of total income)</i>	<i>2.6%</i>	<i>6.0%</i>	<i>6.8%</i>
Reported Diluted EPS (Rs.)	0.27	0.61	0.70

Revenue from Operations



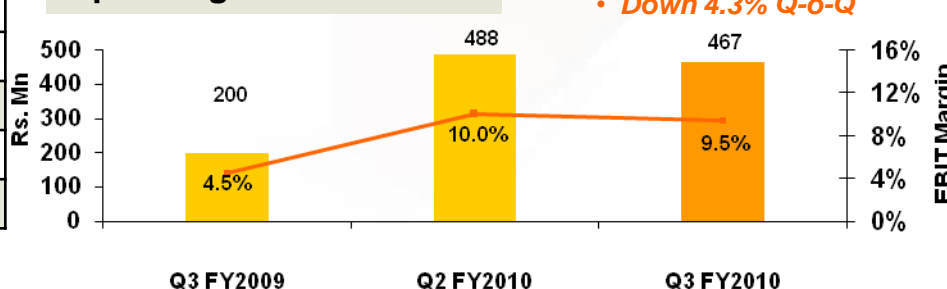
- Up 10.5% Y-o-Y
- Up 0.4% Q-o-Q

Operating EBITDA



- Up 49.7% Y-o-Y
- Down 4.6% Q-o-Q

Operating EBIT

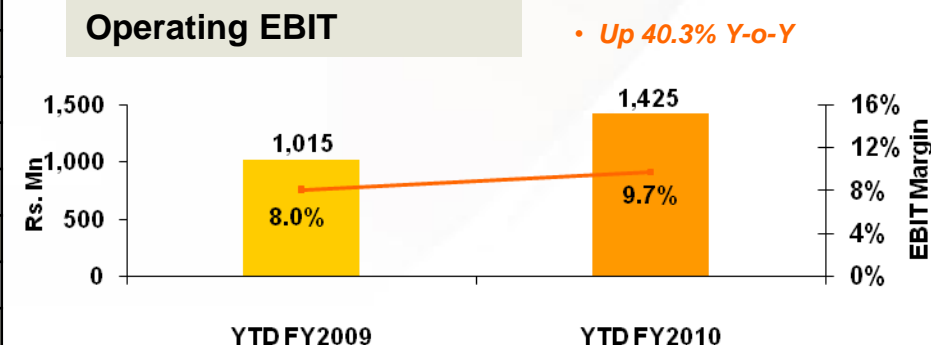
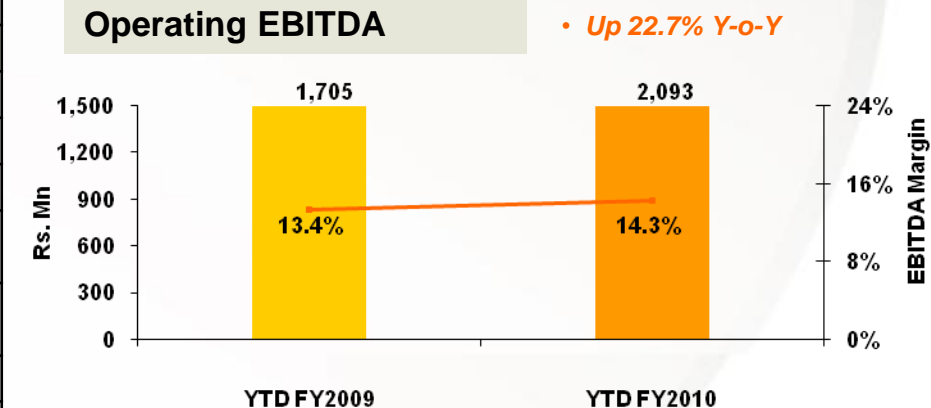
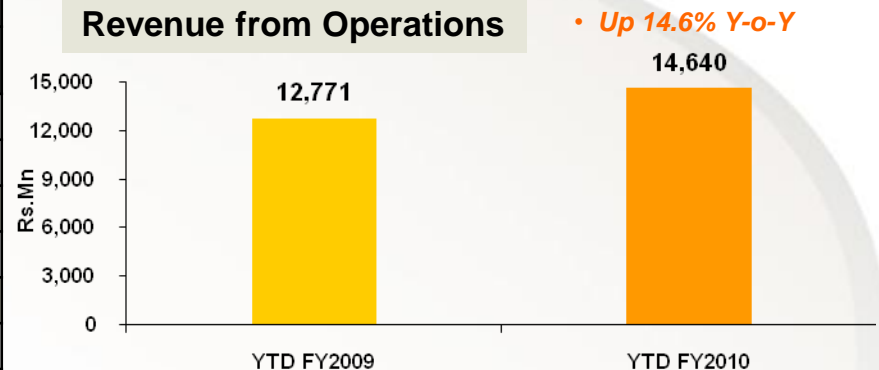


- Up 133.0% Y-o-Y
- Down 4.3% Q-o-Q



Financial Performance – YTD FY2010

(IN INR Million)	For Nine Months	
	YTD FY2009	YTD FY2010
Income from services	12,779	14,531
Other operating Income	(8)	109
Revenue from operations	12,771	14,640
Personnel & Operating Expense	11,066	12,548
Operating EBITDA	1,705	2,093
Operating EBITDA %	13.4%	14.3%
Depreciation / amortization	690	668
Operating EBIT	1,015	1,425
Operating EBIT %	8.0%	9.7%
Other Income / (expense)	(39)	128
Interest Income / (expense), net	(32)	(156)
Gain/(loss) due to exchange var. and amortized (cost) on fair value of FCCB	(860)	(85)
Exchange gain/ (loss) on Foreign currency loan	(5)	(106)
Extraordinary (expenses)	-	(84)
Gain on FCCB Buy back	-	74
PBT	79	1,196
PBT (% of total income)	0.6%	8.1%
Taxes	180	187
Minority Interest	1	4
PAT	(102)	1,005
PAT (% of total income)	-0.8%	6.8%
Reported Diluted EPS (Rs.)	(0.24)	2.09





Q3 FY2010 Highlights (1/5)

Q3 FY2010 Performance Analysis

- **Operating Revenue growth**

- Q-o-Q growth of 0.4% in INR terms and 3.6% in constant currency terms
- Y-o-Y growth of 10.5% in INR terms and 14.8% in constant currency terms
- **Increase due to:**
 - Higher revenue in Telecom & Media Business Unit as ramps for existing customers both onshore and offshore start yielding revenues
 - Higher grant income from Northern Ireland ramps during the quarter
 - Earlier policy of accounting the grant was upfront on the receipt of the grant
 - Beginning FY10, grant accounting policy has been made more conservative and the grant is now being recognized over five years as compared to earlier policy of recognizing grant revenue upfront
 - Grant is now accounted 40% at the time of claim and balance 60% equally in the 48 months after the first anniversary of the claim
- **Partially offset by**
 - Seasonal weakness in Q3 on account of lesser number of working days and lower liquidation rates in BFSI collections
 - Q-o-Q strengthening of Indian rupee against USD and GBP



Q3 FY2010 Highlights (2/5)

Q3 FY2010 Performance Analysis

- **Operating EBIT**

- **Q3FY10 operating EBIT margin came in lower by 50 bps largely on account of :**
 - Continued cost of growth due to ramp up in Telecom & media business unit
 - Seasonal Q3 weakness on account of lesser number of working days and BFSI Collections softness
 - Lower than anticipated volumes in Asia Business unit

Q3 FY2010 Highlights (3/5)

Clients

- **Stable relationships with existing clients**
 - 7 of the top 10 clients have grown during the quarter

Foreign Exchange Hedges

- **Outstanding FX hedges at \$32 million and £36 million for USD and GBP respectively**
 - **FY10** - 90% USD coverage at Rs. 45 levels and 80% GBP coverage at Rs. 80 levels
 - **FY11** - 85% USD coverage at Rs. 46 levels and 70% GBP coverage at Rs. 80 levels

Employee Strength

- **27,308 employees as on December 31, 2009**
 - 21,377 employees based in India and 5,931 employees based outside of India
 - Net addition of 876 employees in Q3 FY10 compared to net addition of 3,077 employees in Q2 FY10 and net addition of 2,944 in Q3 FY09
 - 487 employees added in India, 389 outside India, primarily in Northern Ireland

Attrition

- **Q3 FY10 annualized attrition (post 180 days)**
 - Offshore (India, Argentina and Philippines) – 43.7% compared to 39.1% in Q2 FY10
 - Onshore (US and UK) – 34.1% compared to 42.4% in Q2FY10
 - Domestic – 68.3% compared to 76.9% in Q2FY10



Q3 FY2010 Highlights (4/5)

Seat Capacity and Utilization

- **Seat capacity of 19,407 seats worldwide**
 - 43 delivery centers as on December 31, 2009 compared to 45 as on September 30, 2009
 - Two centers rationalized in India during the quarter
 - Seat fill factor at 80% as on December 31, 2009 compared to 76% as on September 30, 2009
 - Average seat fill factor for Q3 FY10 at 79%

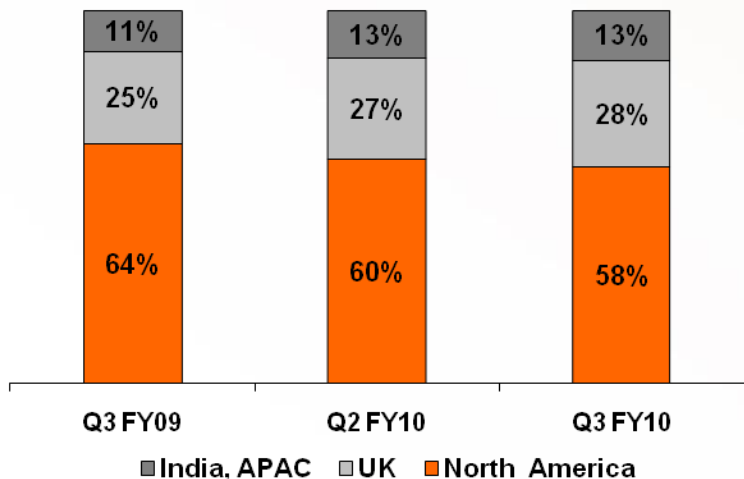
Significant awards and recognition

- Recognized among Top 25 companies in India for Excellence in Corporate Governance for the year 2009 by the Institute of Company Secretaries of India (ICSI)
- Firstsource received third annual HFMA peer review designation for eligibility services, receivables management, collection services and the Medical Advantage Plan (MAP™) program
- Firstsource ranked second among US companies for Revenue Cycle Management Services including Extended Business Office to Transformational Services by KLAS, a leading research organization

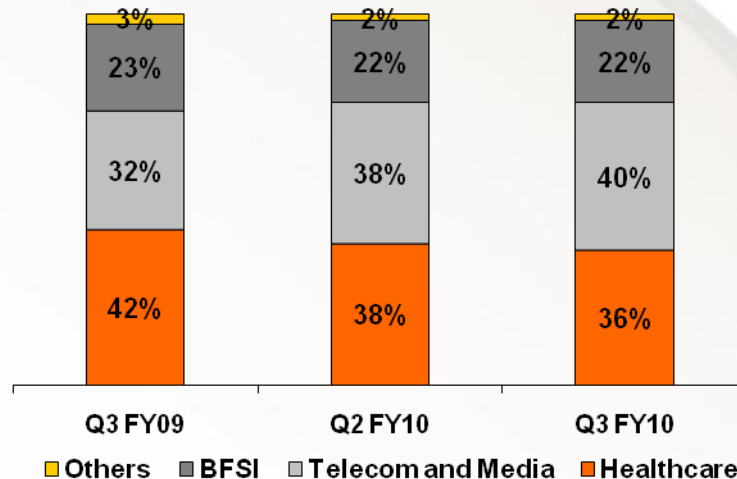


Q3 FY2010 Highlights (5/5)

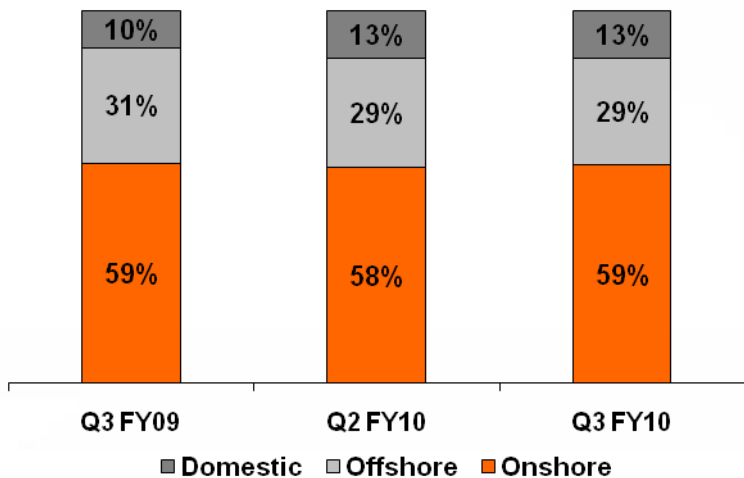
By Geography



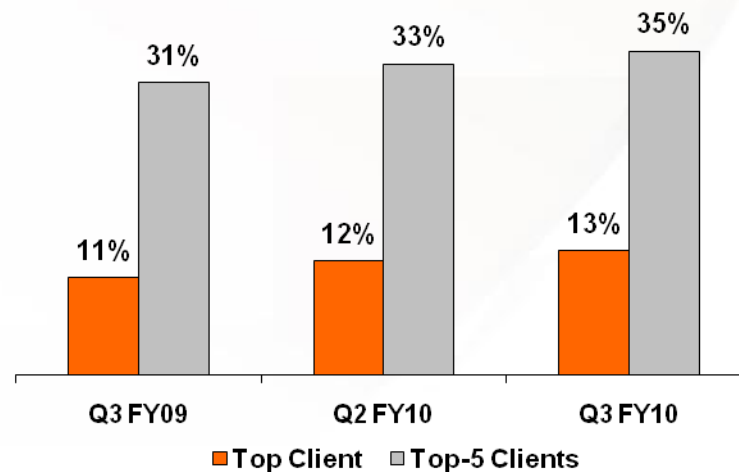
By Verticals



By Delivery Location



Client Concentration



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- Business Outlook





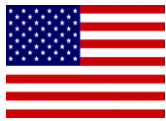
Healthcare

Headed by



President, Healthcare/
CEO, North America
Mike Shea

Market Geography



Key Segments



Revenue Contribution

37%

of income from services (Q3 FY10)

Employees

3,045

as on December 31, 2009

Capacity and Utilization

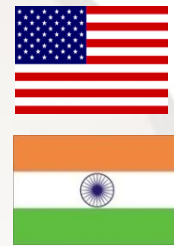
3,414 Seats

as on December 31, 2009

73%

Seat fill factor

Delivery Geography



Industry trends

- **House and Senate bills were in the process of being combined into single legislation, however Democrats have now lost their filibuster-proof majority in the Senate, with the key loss of the Massachusetts seat**
 - Given the importance that the Obama Administration has placed on Healthcare, it is likely that pieces of the current legislation will be enacted, however will not call for sweeping changes as had been planned
 - Timing to resume any negotiations will likely take place in early February, and after the new Republican Senator of Massachusetts has been seated
- **U.S unemployment rates persist, preventing a sustained recovery from the economic recession**
- **Anticipate heightened interest in Payer and Provider services once Reform measures have been finalized**

Business outlook

- **U.S. unemployment is sustaining at 10% and continues to drive a favorable trend in the Provider segment and an unfavorable trend for Payers as declines in employer-sponsored coverage persists**
- **Once finalized, Reform mandates will likely result in increased access to insurance in general, and to Medicaid specifically, with lawmakers predicting an estimated 14 million additions to the Medicaid rolls, and thus providing a favorable outlook for Eligibility Services**
- **Payer segment will likely face mandates regarding medical loss ratio thresholds that will drive increased need for efficiencies, and thus increased demand for outsourcing**
- **Positive outlook while maintaining favorable growth trend and operating performance**



Telecommunications & Media

Headed by



Joint Managing Director



EVP – T&M Santanu Nandi

Market Geography



Key Segments



Cable & Satellite Television



Broadband / Narrowband



Wireless and Mobile



Fixed line

Revenue Contribution

27%

income from services (Q3 FY10)

Employees

6,654

as on December 31, 2009

Capacity and Utilization

4,140 Seats

as on December 31, 2009

82%

Seat fill factor

Delivery Geography



Industry trends

Mobile / Wireless

- Smartphones (incl. iPhone expansion beyond Telefonica O2 to Vodafone, Orange and Tesco Mobile) and mobile data leading to growth, but also putting UK 3G network under real pressure – network reliability starting to affect consumer choice

Broadband / High speed internet

- Customer additions continue to pick up for clients
- Roll out of BT's 40 MB super-fast broadband network continues (C. 4mn homes expected by end of 2010)

Fixed / Wireline

- UK Wireless operators cross selling Fixed Line to their ISP clients to increase ARPU
- State of US economy continues to impact enterprise telecom market

Cable & Satellite TV (Pay TV)

- Triple-play and HDTV offerings continuing to grow
- Development of IPTV offerings

Business outlook

- Our UK mobile clients both now have license to sell iPhones. Smartphones will continue to drive volumes

- Potential to create future growth opportunities- We work for 3 of the Top 4 UK broadband companies, all of whom ride on the BT broadband network

- Positive growth potential in the UK as clients focus on cross-selling initiatives
- Seeing some opportunities to support cost cutting initiatives for enterprise clients

- Growth potential for services through product range expansion



BFSI

Headed by



Joint Managing Director



EVP - BFSI Sanjeev Sinha

Market Geography



Key Segments



Credit Cards



Retail Banking



Mortgage



General and Life Insurance

Revenue Contribution

22%

income from services (Q3 FY10)

Employees

3,510

as on December 31, 2009

Capacity and Utilization

3,109 Seats

as on December 31, 2009

85%

Seat fill factor

Delivery Geography



Industry trends

Business outlook

Credit Cards

- Industry hopeful & expecting to see a recovery in 2010. Staffing Numbers are steadily increasing
- Beginning to see outsourcing interest in the UK

- On the Recoveries side we are optimistic but watchful
- UK could offer opportunities over the next few quarters

Retail Banking

- Bank restructuring is finally happening (RBS and LBG spin-offs/ sell-offs, Northern Rock Bad Bank)
- New banks (Virgin, Tesco + up to 10 others)

- No scale offshoring opportunities at present. Some new banks interested in a platform BPO solution
- Opportunity to support new launches

Mortgages

- Origination activity yet to pick up
- Spin-offs/ Sell-offs/ Closed books beginning to unfold

- Origination and servicing volumes continue to be subdued
- Potential areas of opportunity for FY 11

General insurance

- Direct insurers continue to gain market share
- Large flotations/ spin-offs/ sell-offs on the anvil

- Working for a direct insurer + owner of Top 3 UK price comparison site



Asia Business Unit (ABU)

Headed by



EVP, Asia BU
Chandra Iyer

Market Geography



Key Segments



Telecom & Media



BFSI

Revenue Contribution

12%

of income from services (Q3 FY10)

Employees

13,575

as on December 31, 2009

Capacity and Utilization

**8,174
Seats**

as on December 31, 2009

79%

Seat fill factor

Delivery Geography



Industry trends

Telecom & Media

- New players entering market with aggressive tariff plans
- Intense competition is causing instability in the industry
- Call charging on the anvil
- Mobile number portability (MNP) is now expected from March 31, 2010
- Future growth largely from rural market

Business outlook

- Experiencing lower than anticipated volumes with existing customers
- Right sizing delivery to match current volumes
- Growth with existing customers in newer circles in telecom
- Future growth opportunities fuelled by rural markets matched with low cost delivery models
- Leverage telecom capability in complex back end services and number portability

BFSI

- Insurance reforms under IRDA has spurred buoyant growth of the industry
- Traction seen in insurance and banking sectors

- Discussions with BFSI prospects are progressing



Business Outlook

- **Q4 FY10**
 - Expect positive movement both in revenues and profitability on the back of:
 - Seasonally a strong quarter for BFSI Collections
 - Q3 Telecom & media ramps yielding revenue
 - Partially offset by
 - No Grant income in Q4

THANK YOU

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